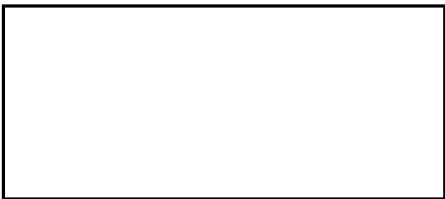


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USSR: 22nd PARTY CONGRESS

*Soviet Economy: Khrushchev's speech on 18 October presenting the new party program reveals even more clearly than did the draft issued on 30 July Moscow's intentions to continue during the next 20 years the present pattern of Soviet economic growth favoring heavy industry. According to the TASS summary of the speech, the consumer industry by 1980 is to increase five times, while industry as a whole will grow six times. This means that both the light industrial base, which produces most of the consumer goods, and heavy industry are expected to grow at approximately the rates claimed in recent years--8 percent for light industry and 10 to 11 percent for heavy industry. In his speech, however, Khrushchev inferred that the consumer by 1980 will be receiving a greater share of total industrial production than at present, whereas in actual fact the consumer's share will decline.

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The massive capital investment program of 2 trillion rubles for the 20-year period announced by Khrushchev is nearly ten times the total amount invested during the history of the Soviet Union to date, but is consistent with stated output goals. Investment in industrial equipment alone could account for at least one third of this total, and fulfillment of the housing program could account for one fourth.

Khrushchev repeated the unrealistic agricultural goals contained in the draft program but did not reveal any intention

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to backup the goals with significant increases in investment. Historically, Soviet agriculture has occupied a low position in the allocation of resources.

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East German Reaction: Khrushchev's withdrawal of the deadline for the signing of a German peace treaty evidently came as a surprise to East Berlin's propaganda apparatus. Khrushchev's speech was televised live in its entirety, with simultaneous German translation, throughout the GDR. The first comment of East Germany's short-wave radio on Khrushchev's speech omitted any reference to the signing of a treaty, as did a 25-minute television "film clip" summary broadcast later in the day. Monitored domestic newscasts either quoted Khrushchev to the effect that the deadline for signing a treaty would not be important "if the Western powers show a realistic attitude toward the settlement of the German problem," or avoided any mention at all of the signing of a treaty. The East German news agency, ADN, closed its daily file at 2200 without quoting Khrushchev.

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*Nuclear Tests: Khrushchev's announcement that the present Soviet nuclear test series probably will be completed at the end of October indicates that the USSR may be planning to repeat its performance of March 1958 and declare a unilateral suspension of tests, while calling on the US, Britain, and France to join in a voluntary, uncontrolled moratorium on all tests. Although Moscow continues to insist that a nuclear test ban treaty can be discussed only in the context of general and complete disarmament, this position would not prevent the USSR from supporting India's draft UN resolution, which calls for an uncontrolled moratorium "pending the conclusion of the necessary agreements in regard to tests or general and complete disarmament."

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South Vietnam: There is a growing demand among top South Vietnamese officials for more effective leadership against the Communist threat. These officials argue that no amount of military and economic aid can save the country unless Diem can be made to change his mode of governing and is successful in rallying the people. The criticism is chiefly directed at the creation of government agencies with conflicting jurisdictions and little real authority and Diem's habit of acting without consulting his ministers.

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*Diem's declaration of a state of national emergency on 18 October may have been intended in part to appease his critics. However, unless extensive changes in political and administrative procedures are forthcoming, the likelihood of a move within the government to oust Diem will increase.

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Many diverse political and military "outs" are maneuvering to exploit the government's present difficulties.

The Watch Committee at its meeting on 18 October reached the following conclusion concerning South Vietnam:

Communist forces are increasing their efforts to undermine the Diem government by sabotage and terrorism and to expand the Viet Cong areas of military control in South Vietnam.

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*Laos: King Savang "accepted" Souvanna Phouma as cabinet formateur in a meeting in Luang Prabang on 18 October; formal designation apparently awaits agreement among the three princes on the new cabinet and Boun Oum's subsequent resignation. Souvanna intends to call a new meeting with Boun Oum and Souphanouvong, possibly to be held at Xieng Khouang where Souphanouvong remains. The positions of Vientiane and the Pathet Lao remain essentially unreconciled, and neither Phoumi nor Souphanouvong has given much indication as yet of changing his attitudes.

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*Ecuador: Leftist Vice President Julio Arosemena, who acts as president of Congress, announced on 18 October that impeachment proceedings will be brought against President Velasco. At a meeting of Congress earlier this week, called to consider the arrest by the government of two opposition deputies, galleries packed with Velasco supporters effectively prevented the transaction of any business, and the meeting ended in stone throwing and gunfire. Anti-government disorders have also been reported in the cities of Guayaquil and Cuenca.

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Arosemena feels that he can count on strong military support if Velasco continues to move toward assuming dictatorial powers. [redacted] a military garrison in southern Ecuador, which includes one of the army's six divisions, has already pledged its support in the event Velasco attempts to dissolve the Congress. There is no other evidence that Arosemena has any army backing. The top military leadership has shown a preference for Velasco over Arosemena and has indicated readiness to support Velasco in moves against the left.

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Turkey: It now appears that numerous difficulties will beset the formation of a coalition government following the recent election. Antagonisms remaining from 17 months of

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military rule may prevent the Republican People's party (RPP), which had been favored by the ruling Committee of National Union (CNU) and which won only a plurality in the lower house, from forming a coalition. Prospects for the Justice party (JP), which would need support of both the smaller parties in the lower house and which had appealed during the campaign to the supporters of executed former Premier Menderes, are also limited, because the CNU appears reluctant to permit formation of a government dominated by the JP. CNU Chairman Gursel has proposed that all four parties--the RPP, the JP, and the two smaller parties which also had appealed to the pro-Menderes vote--form a government. One CNU member is reported to have said that the CNU will not dissolve itself, as had been expected, but will continue to meet after the new government assumes authority on 29 October.

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Common Market - Britain: The initial reaction of the top French Foreign Ministry expert on Common Market (EEC) affairs to Britain's presentation of its terms for EEC membership is that it is merely a well-packaged statement which includes

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"old free trade area ideas," or which envisages British and Commonwealth association with the EEC, rather than British membership. In his view, the various special arrangements proposed to protect the interests of the UK's Commonwealth and Outer Seven partners deprive London's general statements on acceptance of the EEC treaty of any real significance.

While this French reaction contrasts with the generally favorable initial reaction of the other Common Market countries, the EEC's executive commission also foresees an "enormous task" in finding solutions to the issues raised by Britain. One of the commissioners has noted that the lengthy British statement showed little recognition of the problems Britain's position raises for nonmember countries. The British presentation made no mention of the United States even once.

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(Back-up, Page 3)

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WATCH COMMITTEE CONCLUSIONS

On the basis of findings by its Watch Committee, the United States Intelligence Board concludes that:

No Sino-Soviet bloc country intends deliberately to initiate direct military action in the immediate future.

No

NOTE: Further Warsaw Pact exercises, which would improve the Soviet military posture, are likely in the near future.

South Vietnam: (Carried on Page iii of Daily Brief)

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French Official Takes Strong Exception to UK's Proposals For EEC Membership

The French expert, Olivier Wormser, director of economic affairs in the Foreign Ministry, played a leading role in 1958 in frustrating Britain's hopes of negotiating an all-European free trade area as an alternative to full membership in the EEC. His views of the British position set forth by Lord Privy Seal Heath in the 10 October meeting with the EEC ministers reflect to a considerable degree that experience.

The key point of Wormser's analysis, as given to an American Embassy officer on 13 October, is that Britain is bidding to maintain its present trading arrangements with the Commonwealth and Outer Seven and would in effect not apply the EEC's common external tariff to these countries. In the case of the Commonwealth, London would achieve this--Wormser apparently believes--through the variety of special exceptions it is proposing so that Commonwealth producers would retain access to markets comparable to their present ones. Wormser also noted that Heath did not mention giving up tariff preferences accorded the UK by the Commonwealth.

Whatever London's real and specific intentions may be, Wormser's reaction appears an extreme interpretation of what he acknowledges is the UK's initial bargaining position. Heath's statement heavily stressed the Commonwealth problem, and he did suggest continued "free entry" into the UK as a possible solution for certain Commonwealth exports. However, Heath acknowledged this "might not" be compatible with the Common Market, and his proposal for removing or greatly reducing EEC tariffs on certain key items implies their application to all nonmember countries, including the Commonwealth.

Concerning the other Outer Seven countries, Heath reiterated past statements that Britain could not join the EEC unless their "legitimate interests" were met. He added, however, that there was "no question" of Britain's seeking to retain a trading relationship with them any different from that enjoyed by the other members of an enlarged EEC.

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